



Pason's strategic focus on unique proprietary solutions and providing the industry best in customer care gives it a competitive advantage in bridging the physical separation between the remote wellsite and the office. Leveraging these services on its dominant Canadian wellsite presence, a leading position in the United States, growing operations in South America and mobilizing into Australia, has created strong year-over-year revenue gains from each product line and an annual average 31% return on shareholders' equity over the past decade.

Geological Services

Revenue from geological services totaled \$10.3 million in 2005, up 39% from \$7.4 million recorded a year ago.



Pit Volume Totalizers (PVT)

PVT revenue grew 21% to \$38.7 million compared to \$31.9 million recorded in 2004.



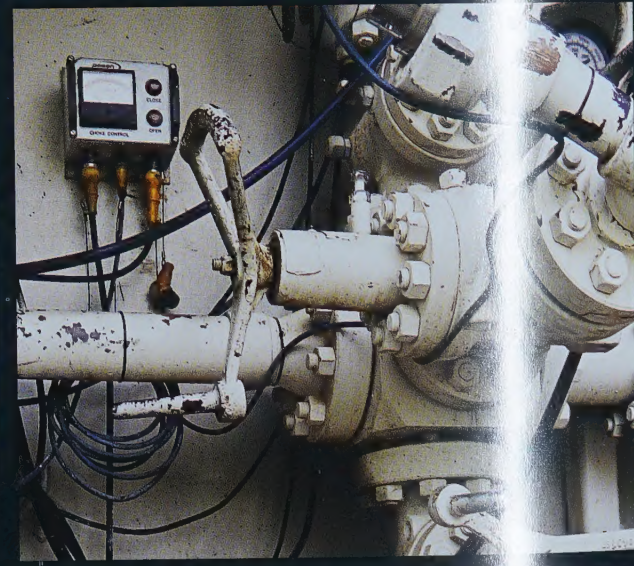
Total Gas Systems (TGAS)

Revenue from TGAS rentals rose to \$10.6 million in 2005 from \$6.6 million the prior year, a 60% increase.

Electronic Auto Drillers
During 2005, Electronic Auto Driller revenue rose 262% to \$11.5 million versus \$3.2 million in 2004.



Choke Control Systems
Revenue from Choke Control Systems increased 31% to \$4.3 million from \$3.3 million a year ago.



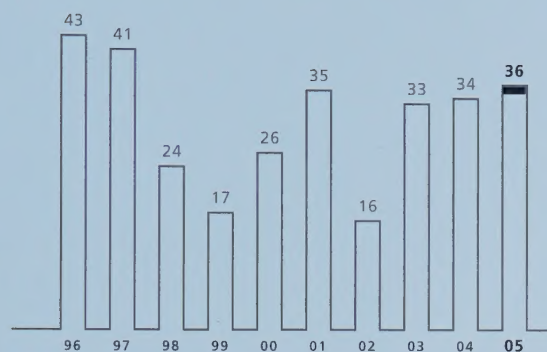
Electronic Drilling Recorders (EDR)
EDR rentals revenue increased 37% to \$77.8 million versus \$56.8 million recorded a year ago.

Communications
Revenue from the Company's communications products jumped 119% to \$19.3 million versus \$8.8 million in 2004.

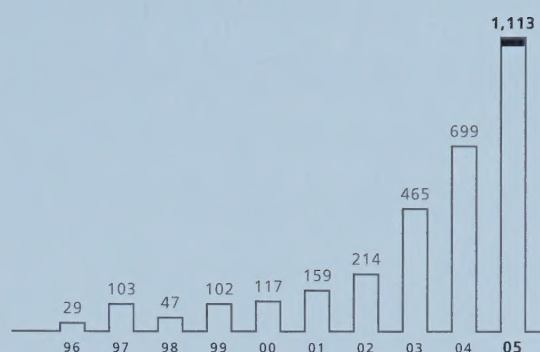


Pason Systems Inc. is the world's largest provider of rental oilfield instrumentation systems that are designed and manufactured for use on land-based drilling and service rigs. Pason offers a tightly integrated package of complex services including data acquisition, wellsite reporting software, remote communications and Internet information management tools.

Pason is a Canadian corporation with its head office located in Calgary, and United States offices in Denver and Houston. Common shares of Pason Systems Inc. are listed for trading on the Toronto Stock Exchange under the ticker symbol PSI.



Return on Equity %



Market Capitalization \$MILLIONS

Performance Data \

	THREE MONTHS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
	2005	2004	CHANGE	2005	2004	CHANGE
(000S, EXCEPT PER SHARE DATA)	\$	\$	%	\$	\$	%
(UNAUDITED)						
Revenue	56,742	36,611	55	177,929	122,212	46
Earnings	17,314	11,757	47	50,280	33,842	49
Per share – basic	0.45	0.31	45	1.32	0.91	45
Per share – diluted	0.45	0.30	50	1.28	0.87	47
Cash flow from operations	26,758	16,868	59	79,369	54,640	45
Per share – basic	0.70	0.45	56	2.08	1.46	42
Per share – diluted	0.69	0.43	60	2.02	1.41	43
Common share dividends						
Per share	0.10	0.075	33	0.175	0.125	40
Capital expenditures	21,199	8,640	145	76,064	41,518	83
Working capital	23,684	21,540	10	23,684	21,540	10
Total assets	218,197	139,012	57	218,197	139,012	57
Shareholders' equity	163,159	114,747	42	163,159	114,747	42
Return on shareholders' equity (%)	–	–	–	36	34	6
Market capitalization	1,113,000	699,000	59	1,113,000	699,000	59
Weighted average shares						
outstanding (#)	38,449	37,672	2	38,120	37,329	2

For the purposes of cash flow per share calculations, cash flow is defined as earnings adjusted for depreciation and amortization, stock-based compensation expense and future income taxes. Return on shareholders' equity is calculated as earnings over the simple average of the beginning and ending shareholders' equity. Both definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Pason's EDR is installed on
95% of all Canadian rigs
and on 45% of all active
U.S. land rigs.



Despite the Company's significant EDR market share in Canada,
there is still the potential for continued growth in this product
line in all markets.

In 2005, Pason marked its ten-year anniversary as a public company with all financial measures achieving new records.

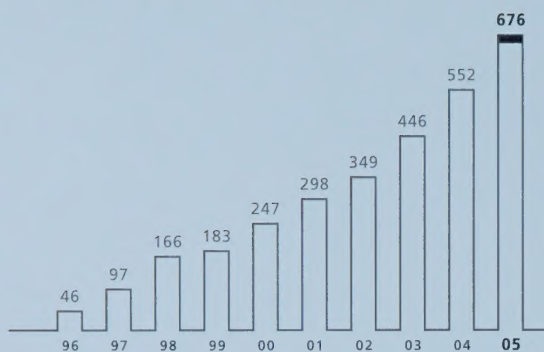
To The Shareholders \

We have marked our ten-year anniversary as a public company in style with another record year for all financial and operational measures. Our key metric, earnings per share, increased to \$1.32, up 45% from our previous record year in 2004. Almost as importantly, our return on shareholders' equity continued above our internal 30% target by achieving 36% in 2005. Having just completed ten years in the public eye, it is worth looking back to see how far we have come. In our first public year, 1996, we had \$0.9 million of earnings and a year-end market capitalization of \$29 million. For 2005, earnings grew to \$50.3 million driving market capitalization to \$1.1 billion, resulting in an annual appreciation of 56% for earnings and 50% for market capitalization growth over the past decade.

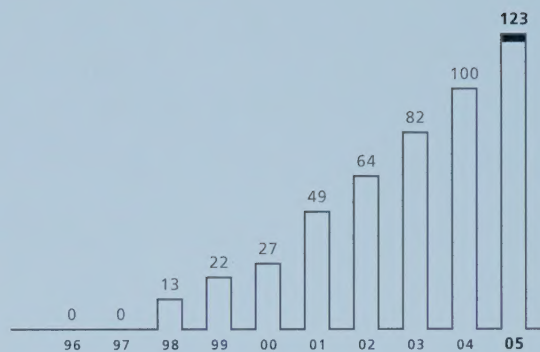
PG 3

Growing In \ The "Boom" Market

In many past communications I have made the point that Pason is not a commodity oil-field service company, a statement that continues to be true. However, in this current period of frenzied oilfield activity, it is a good time to sell commodity-based products since they can be absorbed into the market as fast as they are built despite regular price increases. This contrasts with our drilling instrumentation market where there is no critical shortage of product. During last spring in Canada and late fall in the United States, we did raise prices for the first time in a number of years by 10% to 15% and continue to be the highest priced provider of our services. We can command these prices because we have the best combined offering of technology and service, but this advantage does not permit unlimited price increases. This is why we continue to focus on more rigs dealing with Pason and installing more instrumentation solutions per rig.



**Rentals Revenue Per
Canadian Industry Drilling Day \$**



**Rentals Revenue Per
U.S. Industry Drilling Day \$**

During 2005 in Canada, we generated \$676 of revenue per industry drilling day, as determined by the Canadian Association of Oilwell Drilling Contractors (CAODC), compared to \$552 a year ago. At first glance, this growth seems surprising, especially to those who have said for several years that Pason is a mature story in Canada. I think these observers of Pason underestimate the skills and efficiency of the people in our Canadian business unit, ably led by general manager Bob Rodda. While it is true that our Electronic Drilling Recorder rental days have exceeded CAODC drilling days for the past two years (remember that not all rigs drilling holes in the ground searching for hydrocarbons or crossing rivers are CAODC members and thus are not officially counted), there are still many ways we can grow besides simply increasing prices. Firstly, the Canadian rig count is growing by approximately 75 rigs a year and we get virtually all of this new business. Secondly, our most recent products (Total Gas Systems, auto aiming VSAT communications and Electronic Auto Drillers) are now starting to make meaningful market penetration and generated significant revenue of \$41.4 million in 2005, up 122% from \$18.6 million in 2004.

In the United States, we believe our efforts in 2005 set the base to elevate our business there to an all new level. In prior years, we have turned down or avoided business due to shortages of field technicians, inventory or sufficient general management to properly execute on the extra business. Starting in early 2005, with the addition of Greg Lindsay to lead our U.S. business unit as well as considerable effort from all our U.S. managers, these constraints were addressed with significant improvements noted. We are now ready to take on any and all new work. Our 2005 results only begin to show the growth we expect in coming years. Our revenue per industry drilling day in the United States was \$123 versus \$100 in 2004, our first meaningful year-over-year increase. Even more promising was our fourth quarter revenue per industry drilling day at \$144. Currently, we are installed on 45% of the approximately 1,500 U.S. rigs drilling or moving, as reported weekly by Baker Hughes. If industry information and anecdotal evidence from our own field people prove correct, there should be another 300 rigs added to the market this year. Should this transpire, simply holding market share would mean Pason will add more rigs in 2006 than we did in 2005.

Our new U.S. focus to take on "all comers" also extends to our geological services division where we are creating an exciting paradigm shift. Historically, manned geological services (commonly referred to as mudlogging) was a minor niche industry employed on only a very small percentage of wells drilled with neither customers nor mudlogging companies particularly happy with the status quo. Customers felt the service was too expensive for the product they received, while mudloggers seemed trapped in a dead end career with ever decreasing returns. Although we have been selling a different model for several years, it finally gained traction in 2005. We now offer a complete spectrum of services from totally remote geological services to multiple on-site geologists. To staff this work, we have rebranded mudlogging as an exciting starter job offering invaluable experience for new geology graduates, and our recent recruiting success suggests we may be able to double our geological services capacity.

The past year was also very exciting for our South American partner, Gary Storey, completely validating our foreign operations business model. In this model, which we also employ in Mexico, Pason and the local partner split the rental revenue off the top with Pason providing the equipment, technical support and general business guidance, while the local partner provides field technicians, marketing and all other on-the-ground support. Having started in Argentina, Gary has expanded to several neighbouring countries and is now the clear leader for providing rental instrumentation in South America. International business currently generates more revenue than all of Pason at the time we went public, and in 2005 contributed \$4.2 million, an increase of 26% over the prior year. Given the success in South America, we are looking for a similar arrangement in the Far East as we currently move equipment for three rigs into Australia.

PG 5

**What Happens **
When The
"Boom" Ends?

Over my 25 years of experience in the oilfield service industry, I have observed that business trends either straight up or straight down. Neutral or moderate growth years just don't seem to be possible in our industry. If one focuses on only the upward scenario, then the decision to invest is quite trivial because virtually all oilfield service companies will show strong earnings growth. However, I believe I would be doing a disservice to our shareholders if I did not discuss what Pason's strategy is to mitigate the effect on the Company should the current "boom" turn into a "bust," despite the fact that we do not see a significant reduction in oil prices or a further material decline in the price of natural gas, which has already receded 58% from its early winter high.

Pason currently has low long-term debt through a non-revolving term credit facility in the amount of \$4.3 million and has the highest margins in the oilfield service industry. Financially we are in an excellent position to weather a downturn. During previous slumps in 1998/1999 and again in 2002, we continued to invest and powered right through these periods, actually adding more field technicians and inventory so that we

were ready when the market turned around. An important factor in our service sub industry is that despite the birth of multiple new competitors in most oilfield service sub sectors, there has not been a substantial new entrant into rental oilfield instrumentation in ten years. This clearly speaks to the difficulty of the twin challenges of building instrumentation suitable for the robust needs of the oil patch and at the same time administering a field network to distribute and service this equipment. However, it also indicates we would have more control over pricing in the event that supply of services exceeded demand, which we have verified in previous slumps. An additional factor is that while the number of active rigs may decline, there are still a majority of rigs (especially in the United States) that do not yet have our full product suite installed. This provides us the opportunity to increase revenue per rig to offset a decline in rigs on rent. Finally, protection is also provided by our new Electronic Service Recorder (ESR) that took hold in Canada in late 2005. We currently have orders for 100 of these systems with interest growing daily. A clear advantage of the ESR is that while drilling activity can be cyclical, service rig activity tends to be far less so as the need to keep wells producing is there at almost any commodity price.

Challenges \ We Face

Pason has always been a company that excelled at operations, but dramatic growth can test that skill. We continue to invest heavily to upgrade our systems in two key areas. Our nearly 200 field service technicians are in possession of thousands of pieces of rental equipment on over 1,500 rigs. Tracking the utilization of this inventory and providing regional surplus or shortage visibility is becoming increasingly important. By the end of 2006, we hope to be able to benefit from significant system improvements. Secondly, we have for a number of years been reporting on an e-commerce like billing system that would not only benefit Pason, but the entire industry. We have made considerable progress but the challenge has been greater than we originally surmised. Whereas in most industries the sales transaction is determined by the seller, in the oil patch the buyer has unusual control over the transaction. Thus, to simplify the purchasing transaction, Pason and its private company partner must fundamentally change the way most companies transact their business. Although difficult to achieve, we believe 2006 will be the year that this change begins.

With the growth to a billion dollar company comes the expectation that we will have systems and controls to mitigate most risks the Company may face. To that end, we have hired a risk manager and initiated a Company wide program to identify and act upon risks. This clearly is the focus of the Sarbanes Oxley Act and the proposed Canadian regulatory equivalent, but we see this legislation as looking at the financial reporting controls, which are only a subset of a much greater pool of risks including engineering, data management and human capital.

**Outlook ** Currently, there is some short-term volatility in the supply/demand balance and corresponding commodity prices. However, we believe that long-term there will continue to be shortages of both oil and natural gas, resulting in strong commodity prices and high levels of drilling, especially in North America. Rig additions, which are the base for our business, look to be approximately 400 in North America for both 2006 and 2007 and we expect to install our equipment on the majority of these rigs. While we have challenges in manufacturing to the required levels, most of our product parts come from the electronics industry and are not as supply constrained as many conventional oilfield suppliers. A further advantage for Pason is that our field personnel requirements are not nearly as intensive as drilling contractors or oil sands projects, so we fully expect to continue to attract sufficient quality workers.

At Pason, we pride ourselves on being candid about our prospects and how we operate or deliver on them. To that end and for further insights, I encourage all interested shareholders to join us at our annual meeting and reception to be held in our Calgary offices on May 15, 2006.

PG 7

Finally, I wish to thank all shareholders, employees, customers and suppliers who have contributed to what Pason has achieved over the past ten years.

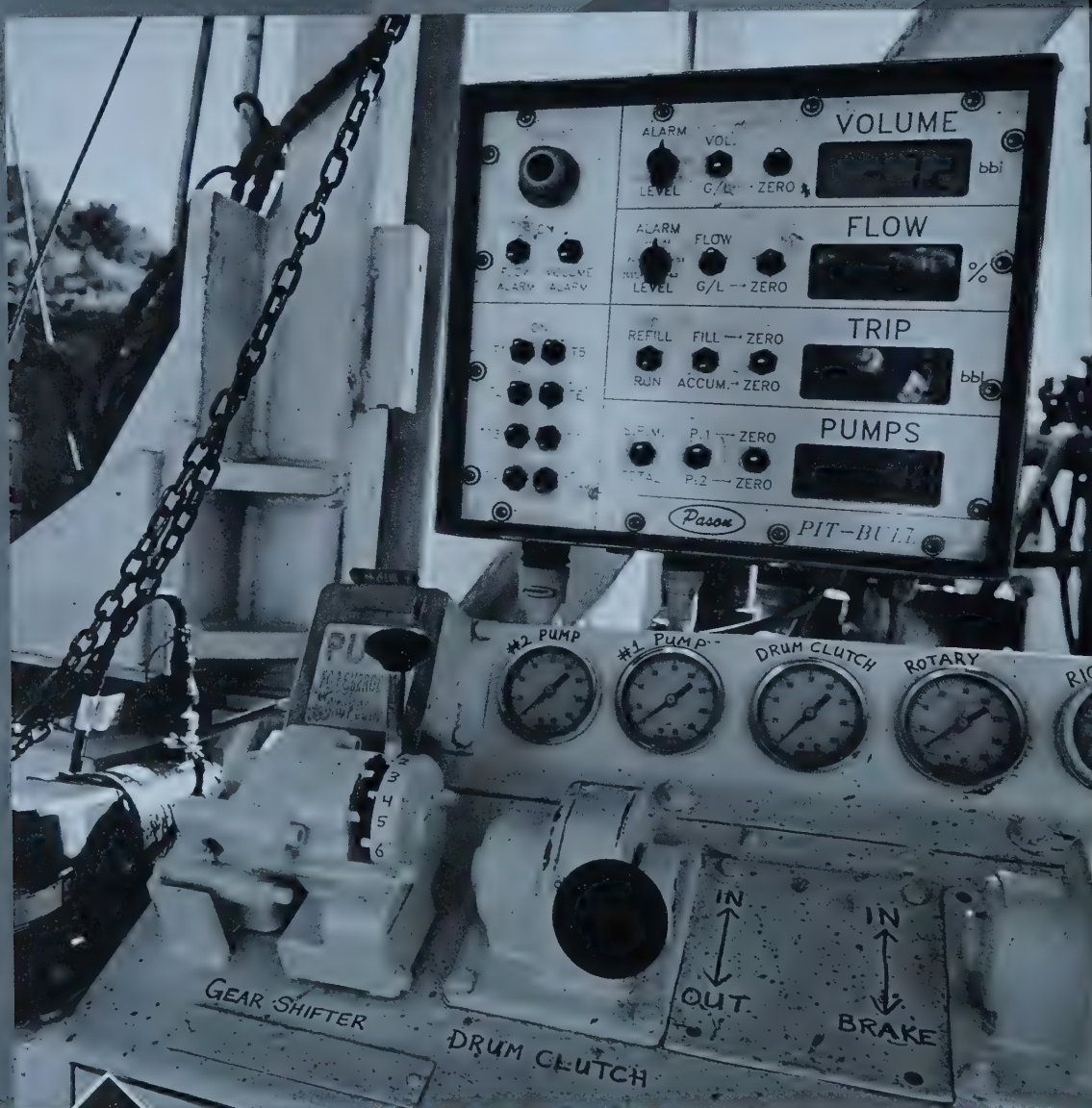
On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read "J Hill", with a stylized, cursive script.

Jim Hill
PRESIDENT & CHIEF EXECUTIVE OFFICER

MARCH 1, 2006

The Company's PVT is installed on 93% of Canadian and 67% of U.S. rigs operating with a Pason EDR system.



In Canada, drilling regulations allow operators to reduce surface casing depth when a PVT is employed, thereby justifying the use of this instrument on practically every well.

Management's Discussion and Analysis \

The following discussion and analysis has been prepared by management as of March 1, 2006 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. Its focus is primarily a comparison of the financial performance for the three months and years ended December 31, 2005 and 2004 and should be read in conjunction with the consolidated financial statements and accompanying notes.

The interim unaudited consolidated financial information for the three months ended December 31, 2005 and 2004 has not been reviewed by the Company's auditors.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

All financial measures presented in this annual report are expressed in Canadian dollars and are post-stock split approved May 16, 2005 unless otherwise indicated.

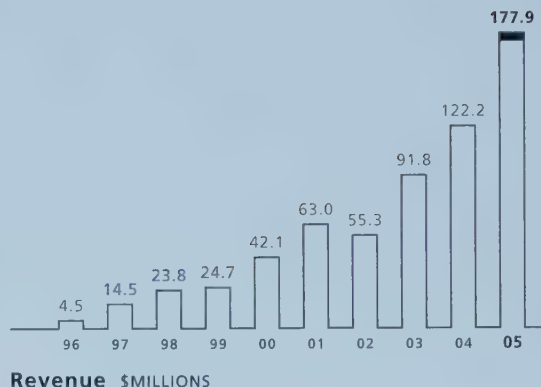
	THREE MONTHS ENDED DECEMBER 31,			YEARS ENDED DECEMBER 31,		
	2005	2004	CHANGE	2005	2004	CHANGE
(000S, EXCEPT PER SHARE DATA)	\$	\$	%	\$	\$	%
(UNAUDITED)						
Revenue						
Drilling recorder rentals	24,201	16,561	46	77,790	56,768	37
Pit volume totalizer rentals	11,709	9,182	28	38,731	31,940	21
Communications rentals	6,624	3,003	121	19,267	8,802	119
Geological services	2,885	2,182	32	10,303	7,407	39
Total gas rentals	3,792	2,019	88	10,622	6,638	60
Electronic auto driller rentals	4,468	1,397	220	11,544	3,187	262
Choke control rentals	1,336	1,064	26	4,278	3,261	31
Mobilization and other income	1,727	1,203	44	5,394	4,209	28
Total revenue	56,742	36,611	55	177,929	122,212	46
Expenses						
Rental services	12,946	8,382	54	47,843	33,468	43
Geological services	1,857	1,395	33	6,532	4,954	32
Manufacturing and distribution	2,289	944	142	6,422	3,579	79
Research and development	1,700	1,345	26	6,379	4,995	28
Administration	1,209	828	46	4,076	3,062	33
Stock-based compensation	849	424	100	2,595	1,290	101
Interest	279	67	316	547	383	43
Depreciation and amortization	8,335	4,219	98	27,198	18,992	43
Total expenses	29,464	17,604	67	101,592	70,723	44
Earnings (after taxes)	17,314	11,757	47	50,280	33,842	49
Per share – basic	0.45	0.31	45	1.32	0.91	45
Cash flow from operations	26,758	16,868	59	79,369	54,640	45
Per share – basic	0.70	0.45	56	2.08	1.46	42
Margins						
Rental services	76%	76%	–	71%	71%	–
Geological services	36%	36%	–	37%	33%	12

For the purposes of cash flow per share calculations, cash flow is defined as earnings adjusted for depreciation and amortization, stock-based compensation and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

YEARS ENDED DECEMBER 31,	2005	2004
	%	%
Drilling recorder rentals	44	47
Pit volume totalizer rentals	22	26
Communications rentals	11	7
Total gas rentals	6	5
Electronic auto driller rentals	6	3
Geological services	6	6
Mobilization income	3	3
Choke control rentals	2	3

Revenue by Product

AS A PERCENTAGE OF TOTAL REVENUE

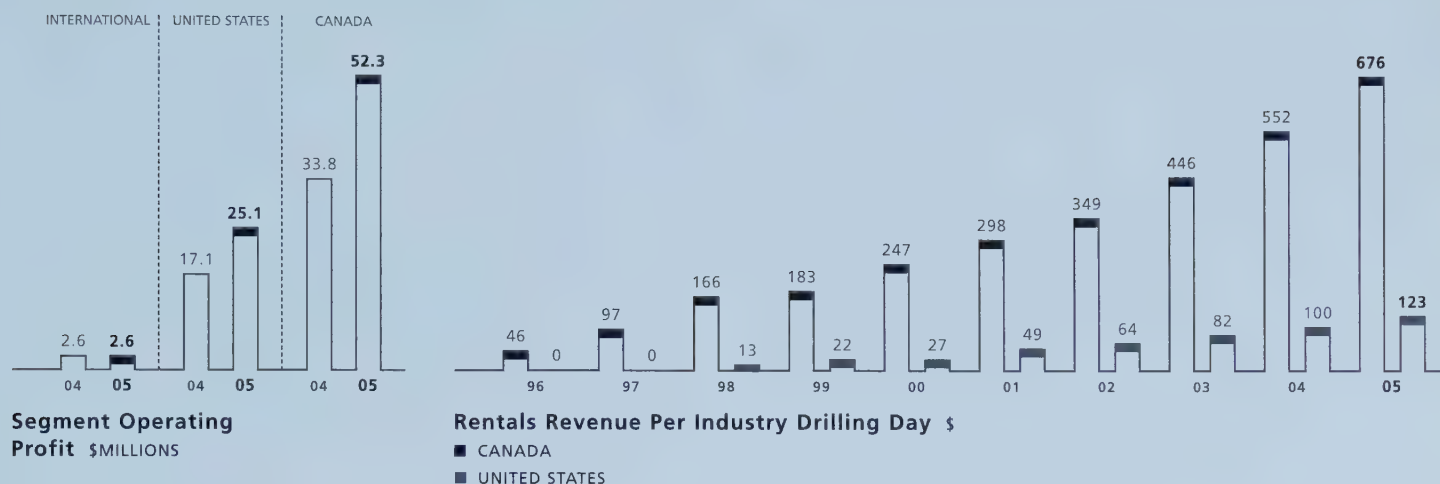
**Selected
Annual
Information**

YEARS ENDED DECEMBER 31,	2005	2004	2003
(000S, EXCEPT PER SHARE DATA)	\$	\$	\$
(UNAUDITED)			
Revenue	177,929	122,212	91,801
Earnings	50,280	33,842	24,596
Per share – basic	1.32	0.91	0.68
Per share – diluted	1.28	0.87	0.65
Cash flow from operations	79,369	54,640	40,463
Per share – basic	2.08	1.46	1.11
Per share – diluted	2.02	1.41	1.07
Capital expenditures	76,064	41,518	34,041
Working capital	23,684	21,540	9,235
Total assets	218,197	139,012	112,289
Shareholders' equity	163,159	114,747	83,902
Average shares outstanding (#)			
Basic	38,120	37,329	36,350
Diluted	39,272	38,713	37,641
Shares outstanding end of year (#)	38,523	37,765	36,892

For the purposes of cash flow per share calculations, cash flow is defined as earnings adjusted for depreciation and amortization, stock-based compensation and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

Pason's revenue is derived from the rental of instrumentation and data services to oil and gas companies and rig contractors throughout Canada, the United States and internationally. For the fiscal year ended December 31, 2005, the Company posted record financial and operating results by continuing to pursue its business strategy of maintaining steady growth through increased market share and by providing more products per wellsite.

Revenue \ Revenue, generated from instrumentation rentals and geological services, increased 55% to \$56.7 million during the 2005 fourth quarter compared to \$36.6 million in the 2004 three-month period. For the year ended December 31, 2005, instrumentation rentals and geological services revenue rose to \$177.9 million from \$122.2 million recorded in the same period a year ago. This 46% year-over-year jump was due to increases in the number of Canadian and United States industry drilling days (20% and 17%, respectively) and improved revenue per industry drilling day brought about by the addition of new products, 10% to 15% increases in rental rates on selected products and a growing U.S. market share. The gain recorded in the United States was offset somewhat by the declining U.S. dollar when converted to Canadian currency.



INSTRUMENTATION RENTALS

Pason delivers an integrated package of rental products that offers wellsite data acquisition and drilling management benefits at both the wellsite and in the office. During the fourth quarter of 2005, revenue generated by instrumentation rentals increased 56% to \$53.9 million compared to \$34.4 million a year ago. For the year ended December 31, 2005, revenue generated by instrumentation rentals totaled \$167.6 million versus \$114.8 million in 2004. Canadian rentals revenue rose 48% to \$107.0 million from \$72.5 million, rentals revenue generated from U.S. operations increased 45% to \$56.4 million from \$39.0 million, while revenue from international activities improved 26% to \$4.2 million from \$3.3 million in 2004. Year-over-year differences in currency exchange rates negatively impacted the Company's U.S. rentals revenue by \$5.0 million. The gross margin (rentals revenue less rental expenses) as a percentage of revenue was 76% for both the 2005 and 2004 fourth quarters, and 71% for both of the years ended 2005 and 2004.

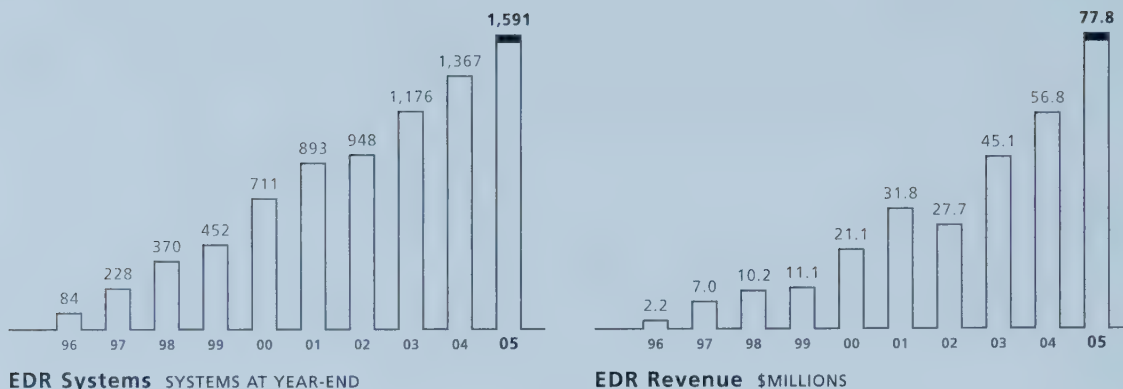
In Canada, the Company's rentals revenue per industry drilling day was \$709 in the fourth quarter and \$676 per day for the year, up 20% and 22% from the 2004 periods, respectively. While these numbers reflect period averages, Pason has several Canadian rigs generating over \$1,000 per day of rentals revenue. In the United States, rentals revenue per industry drilling day improved 41% to \$144 in the fourth quarter and 23% to \$123 per day for the year.

The daily rental value of the Company's current data acquisition, control and data management products as well as those in development could generate an economic package in excess of \$1,200 per industry drilling day in Canada, creating the potential for continued growth in this market despite its significant Electronic Drilling Recorder market share.

ELECTRONIC DRILLING RECORDERS

Pason's Electronic Drilling Recorder (EDR) is a complete system of instrumentation and monitoring equipment, which acts as a base for all data capture, data display and communications at the drilling wellsite, that is configured as required and serves as the core of the Company's wellsite presence. In 2005, Pason built 224 new systems to meet the continuing customer demand. At year-end, Pason's electronic data acquisition instrumentation had been installed on 95% of all Canadian rigs reporting to the Canadian Association of Oilwell Drilling Contractors and was on 45% of all active U.S. land rigs.

Revenue generated from the Company's EDR was up 46% to \$24.2 million for the fourth quarter compared to \$16.6 million for the same period in 2004. For the year ended December 31, 2005, EDR revenue totaled \$77.8 million versus \$56.8 million recorded a year ago. The 37% year-over-year revenue growth was primarily due to 25% and 26% increases in Pason's Canadian and U.S. EDR annual rental days, respectively, or from 133,200 to 166,500 days in Canada and from 134,700 to



170,400 days in the United States. Pason rental days for all products are determined by the accumulated billing days from all customer invoices. During 2005, the Company continued to enhance its software to allow its EDRs to take advantage of the broadband Internet access that Pason has made economically viable and available at most wellsites. During 2005, Pason significantly increased its EDR presence in the United States by shipping 161 units or over 72% of its new builds to this market.

PG 12

PIT VOLUME TOTALIZERS

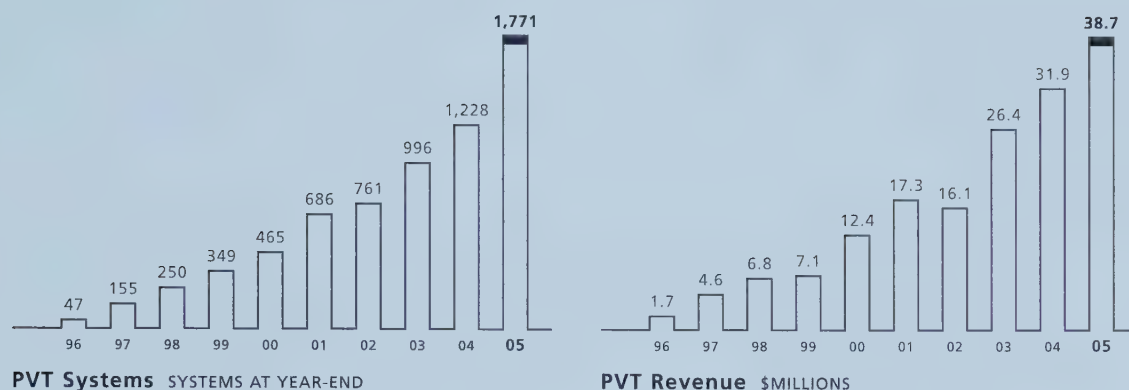
The Pit Volume Totalizer (PVT) is Pason's proprietary solution for the detection and early warning of "kicks" that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. At year-end, the Company's PVT had been installed on 93% of Canadian and 67% of U.S. rigs operating with a Pason EDR system. Fourth quarter PVT revenue increased 28% to \$11.7 million versus \$9.2 million in 2004. A 25% and 29% increase in Canadian and U.S. PVT annual rental days, respectively, contributed to the 21% increase in PVT rentals revenue to \$38.7 million from \$31.9 million a year ago. The Company's Canadian PVT annual rental days totaled 154,800 compared to 123,900 days in 2004, while U.S. rental days were 114,800 versus 88,800 days a year ago. Canadian drilling regulations allow operators to reduce surface casing depth when a PVT is employed, thereby justifying the use of this instrument on practically every well.

COMMUNICATIONS

Peloton WellView® is a drilling data collection and reporting solution that is an integrated addition to Pason's EDR. Building on the wellsite engineering package developed by Peloton Computer Enterprises, a leading provider of this type of product, Peloton WellView® provides a generic engineering database capture module that follows the Pason EDR and the rigs on which it operates.

Pason displays all data in standard forms on its Internet DataHub, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data amongst oilfield service companies, drilling contractors and operators).

In order to facilitate communications that are necessary for Peloton WellView® to function as well as to meet customer needs for more frequent drilling updates, Pason's high bandwidth satellite solution was rolled out in 2003. High-speed Internet satellite systems are equipped with proprietary hardware and software to facilitate automatic aiming as they move from one wellsite to the next. In addition to several small modifications made to the satellite systems during 2004, in 2005 the Company introduced its iDirect upgrade service that allows for individual management of bandwidths at the wellsite location. Fourth quarter communications rentals revenue, which includes



Peloton WellView®, increased 121% to \$6.6 million compared to \$3.0 million for the same period in 2004. For the year ended December 31, 2005, communications rentals revenue was up 119% to \$19.3 million from \$8.8 million a year ago. During 2005, \$15.6 million or 81% of the total communications revenue was from Canada and \$3.7 million from the United States.

TOTAL GAS SYSTEMS

The Pason Total Gas System (TGAS) measures the total hydrocarbon gases (C1 through C5) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The complex system provides a more accurate gas sample than competitor systems while reducing daily maintenance requirements. Although this product has been successful, it has required more field service support than expected, and as a result, during 2004 and 2005 the Company did a complete engineering revision, the impact of which should be realized in 2006. Revenue generated during the 2005 fourth quarter from Pason's TGAS increased 88% to \$3.8 million compared to \$2.0 million recorded in the prior year. For the year ended December 31, 2005, TGAS revenue rose 60% to \$10.6 million compared to \$6.6 million in 2004. At year-end, Pason's TGAS had been installed on 40% of Canadian and 15% of U.S. land rigs operating with a Pason EDR system.

ELECTRONIC AUTO DRILLERS

In 2003, Pason released, on a limited basis, its Electronic Auto Driller that is used to maintain constant weight on the drill bit while a well is being drilled. At year-end 2005, the Company had a total of 824 units versus 431 units in 2004. Revenue from the Pason Electronic Auto Driller was up 220% in the fourth quarter of 2005 to \$4.5 million from \$1.4 million in 2004 and rose 262% for the year to \$11.5 million from \$3.2 million recorded at December 31, 2004. By the end of 2005, Pason's Electronic Auto Driller had been installed on 55% of Canadian and 15% of U.S. land rigs operating with a Pason EDR system.

CHOKE CONTROL SYSTEMS

Pason's Electronic Choke Control System is used to control and remove detected gas "kicks" from the wellbore. During the fourth quarter of 2005, revenue from this product was up 26% to \$1.3 million from \$1.1 million a year ago and up 31% at year-end to \$4.3 million from \$3.3 million in 2004. As at December 31, 2005, the Pason Electronic Choke Control System had been installed on approximately 33% of all Canadian rigs in operation. The Company's business model for this product sees Pason providing only the electronic actuation and display, while the drilling contractor is responsible for the choke valve portion of the system. Although this model provides for greater industry safety, it has yet to gain acceptance in the United States, and therefore, to date the vast majority of revenue for this product has been derived from Canada.

GEOLOGICAL SERVICES

Due to the strong link between the geological service provider and the specialized equipment that is employed, in the United States market Pason provides geologists to monitor gas in the drilling returns, to pick formation tops and to analyze drilling cuttings. Historically, manned geological services (commonly referred to as mudlogging) was a minor niche industry employed on only a very small percentage of wells drilled. Although Pason has been selling a different model for several years, it finally caught on in 2005 such that it now offers an entire service spectrum from completely remote geological services to multiple on-site geologists. To staff this work, Pason has rebranded mudlogging as an exciting starter job that offers invaluable experience for new geology graduates. Fourth quarter revenue from geological services rose 32% to \$2.9 million from \$2.2 million in 2004, while its annual revenues increased 39% to \$10.3 million from \$7.4 million recorded a year ago. The gross margin for these services was 37%, up from 33% in 2004, due to improved pricing and better cost control. Although Pason's geological services are primarily concentrated in the U.S. Rocky Mountain region where more complicated drilling structures increase the need for these specialized services, during 2004 and 2005 the Company expanded its geological services into the Texas market.

**Expenses ** For the fourth quarter of 2005, consolidated total expenses increased 67% to \$29.5 million from \$17.6 million for the same period in 2004. For the year ended December 31, 2005, total expenses rose 44% to \$101.6 million from \$70.7 million the prior year. Expenses incurred by the Company have reflected the cost associated with building and maintaining a field service infrastructure to accommodate the levels of activity experienced over the past several years.

INDIVIDUAL EXPENSE ITEMS AS A PERCENTAGE OF TOTAL EXPENSES

YEARS ENDED DECEMBER 31,	2005	2004
	%	%
Rental services	47	47
Depreciation and amortization	27	27
Geological services	6	7
Research and development	6	7
Manufacturing and distribution	6	5
Administration	4	4
Stock-based compensation	3	2
Interest	1	1

Rental services expenses for the fourth quarter, which represented 44% of the period's total expenses, increased 54% to \$12.9 million from \$8.4 million a year ago. During 2005, rental services expenses, which represented 47% of the year's total expenses, increased 43% to \$47.8 million compared to \$33.5 million in 2004. These expenses consisted primarily of wages and related benefit costs representing approximately 32% of the total rental services expenses in both Canada and the United States, and the additional direct costs of field servicemen, including but not limited to vehicle costs, communication, equipment repairs and freight. Of the \$14.4 million year-over-year increase in total rental services expenses, \$7.5 million was incurred in Canada (\$1.1 million for repairs, \$1.4 million for field expense (including \$0.9 million for the write-off of field radios), \$0.8 million each for labour and related costs, vehicles and freight and courier, \$0.7 million for communication expenses and the remaining \$1.9 million was spread evenly across other expenses) and \$6.9 million incurred in the United States (\$2.1 million for labour and related costs, \$1.0 million for equipment repairs, \$0.9 million for vehicle costs, \$0.6 million for freight and courier, and \$2.3 million for miscellaneous other items). Industry activities remained high during 2005 and are expected to continue at high levels into

2006, and in order to maintain strong levels of service, the Company continues to recruit and train additional field technicians as required. Pason's field service technicians are employed year round, and as a result, the Company's related expenses have a heavily weighted fixed component that is critical to its high service level. At December 31, 2005, Pason employed 156 field service technicians versus 114 at December 31, 2004 – a significant contributor to the increase in overall rental services expenses, especially in the United States where throughout the year the Company rapidly increased its work force. During 2004, Pason introduced simplification initiatives to reduce the volume and complexity of the workload experienced by its field technicians. To further improve the service component, in 2005 Pason introduced regional rental managers to both its Canadian and U.S. operations.

Geological services expenses increased 33% to \$1.9 million from \$1.4 million in the fourth quarter of 2004 and rose 32% to \$6.5 million from \$5.0 million for the year ended December 31, 2004. Over 73% or \$1.1 million of the \$1.5 million year-over-year increase was for labour and related costs. The increase was more than offset by improved prices and capacity for on-site geologists. Geological services expenses have been typically more variable weighted than the rental services expenses.

Costs related to the manufacturing and distribution of Pason products rose 142% to \$2.3 million in the 2005 fourth quarter from \$0.9 million in 2004. For the year, these expenses increased 79% to \$6.4 million from \$3.6 million a year ago. Approximately 46% of the year-over-year increase was due to higher personnel costs of \$1.3 million required to expand the Company's work force in this department. The remainder of the \$1.5 million increase included \$1.0 million for inventory write-downs, \$0.3 million for freight and courier, and \$0.2 million for miscellaneous smaller accounts.

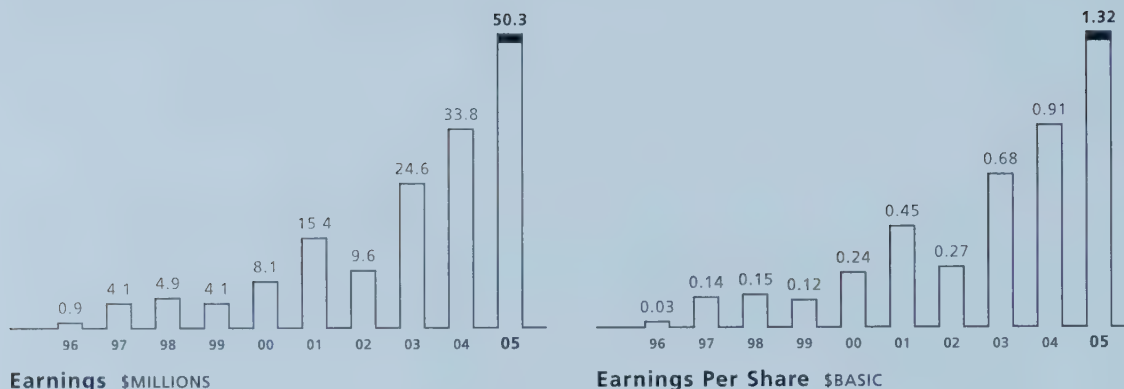
PG 15

Research and development expenses, largely labour and occupancy related, increased 26% to \$1.7 million in the quarter versus \$1.3 million in 2004. For the year ended December 31, 2005, R&D expenses were up 28% to \$6.4 million from \$5.0 million a year ago, while annual capitalized deferred development costs increased \$0.8 million to \$1.8 million from \$1.0 million in 2004, before investment tax credits received. Labour and related costs accounted for over 86% of the increase in expensed costs in 2005. Almost four times the R&D expenditures were related to current period expenses as opposed to capitalized projects. At December 31, 2005, there were 63 employees devoted to research and development, up from 52 at December 31, 2004.

Administrative expenses for the fourth quarter totaled \$1.2 million, a 46% increase over the \$0.8 million recorded in the same 2004 period. For the year ended December 31, 2005, these expenses increased 33% to \$4.1 million from \$3.1 million a year ago with wages and related benefit costs contributing to \$0.6 million of the \$1.0 million year-over-year increase. Administrative costs represented 2% of total revenue in each of 2005 and 2004.

All options issued to employees and directors subsequent to December 31, 2002 have been accounted for using the fair value method of accounting as recommended by the Canadian Institute of Chartered Accountants, which for the year ended December 31, 2005 resulted in an expense of \$2.6 million, a 101% increase from the \$1.3 million recorded in 2004. The corresponding accounting entry in 2005 created the contributed surplus as shown under shareholders' equity on the Company's balance sheet. As options are exercised, that were previously expensed, share capital and contributed surplus are adjusted accordingly.

Interest expense rose 316% or \$0.2 million in the 2005 fourth quarter and 43% or \$0.2 million for the year. In a period of strong drilling activity and the resulting improvement in operating cash flow, Pason's increased capital expenditures were financed from cash flow and the use of its credit facilities due to the timing of the cash flow. Given the continued strong levels of drilling activity and demand for the Company's products, during the first half of 2006 Pason expects to continue to use its available credit lines to fund its ongoing capital activities.



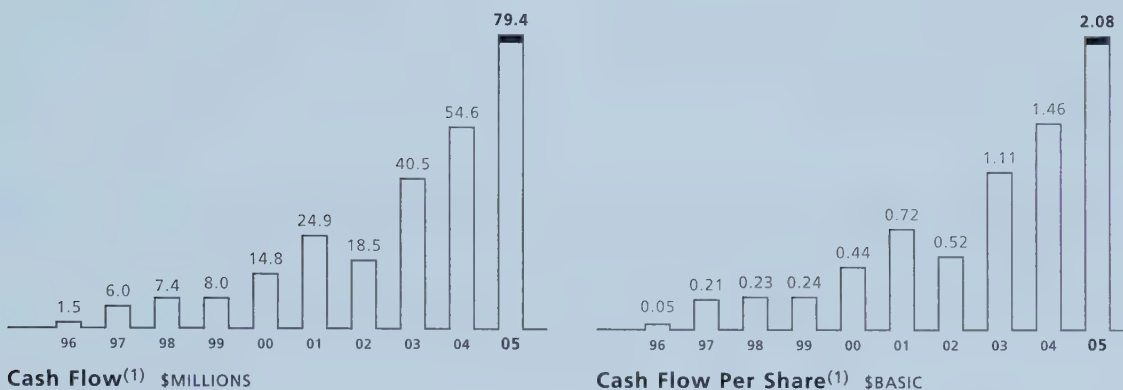
Depreciation and amortization expenses increased 98% to \$8.3 million in the 2005 fourth quarter from \$4.2 million recorded in the 2004 period. For the year ended December 31, 2005, depreciation and amortization expenses rose 43% to \$27.2 million from \$19.0 million in 2004, which represented 27% of the year's total expenses in both 2005 and 2004. A portion of the Company's tangible assets are depreciated using a unit-of-use method of depreciation as it best matches revenue and expenses. Consequently, these expenses rose during 2005 reflecting the increases in rental days. In addition, changes made in accounting estimates over the last several years resulted in cables, which were previously depreciated as part of the EDRs, PVTs and TGAS, being reclassified to their own category and subsequently depreciated on a straight-line basis over 36 months instead of their respective rental days under the unit-of-use method. Satellite systems are also depreciated on a straight-line basis over 36 months. The cumulative impact of these changes resulted in increased depreciation costs in 2005 and a higher fixed portion that is not dependent on use.

Income tax expense increased 37% to \$10.0 million for the three-month period compared to \$7.3 million a year ago and rose 48% to \$26.1 million for the year ended December 31, 2005 from \$17.6 million in 2004. An increase in earnings before tax of \$24.8 million, up 48% from 2004, contributed to an increase in total taxes payable for the year. The Company's combined current and future tax rate for 2005 was 34.1% versus 34.3% a year ago.

**Margins ** The margin generated by the Company's rental products remained constant at 76% for the fourth quarters of 2005 and 2004 and at 71% for the years ended December 31, 2005 and 2004. The Company improves its margins primarily from increases in rental products per site as well as market share or volume and less from price increases, which are the norm for most service companies. The geological services margin also remained constant at 36% for the fourth quarters of 2005 and 2004 and rose to 37% for the year from 33% in 2004. This level should be maintained and may improve in 2006 with increased volume.

**Earnings ** Year-over-year fourth quarter earnings increased 47% to \$17.3 million and to \$0.45 per share basic from \$11.8 million or \$0.31 per share in the 2004 three-month period. Earnings for the year increased to \$50.3 million or \$1.32 per share basic from \$33.8 million or \$0.91 per share in 2004. This 49% earnings growth was due primarily to an increase in the Company's revenue as a result of strong drilling activity in both Canada and the United States.

**Cash Flow ** Operating cash flow rose 59% to \$26.8 million or \$0.70 per share basic in the fourth quarter of 2005 from \$16.9 million or \$0.45 per share in 2004. For the year ended December 31, 2005, cash flow from operations increased 45% to \$79.4 million or \$2.08 per share basic from \$54.6 million or \$1.46 per share a year ago. The 45% or \$24.7 million cash flow gain was a result of a \$16.4 million increase in earnings adjusted for \$8.2 million in non-cash depreciation, (\$1.2) million in future income tax and



\$1.3 million in stock-based compensation. During 2005, cash flow was used primarily to finance the Company's expanded capital expenditures program and to pay common share dividends.

(1) For the purposes of cash flow per share calculations, cash flow is defined as earnings adjusted for depreciation and amortization, stock-based compensation and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies. Cash flow from operations including per share amounts are presented to assist readers in assessing non-discretionary cash flows generated and available for capital expenditures.

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Liquidity and Capital Resources

At December 31, 2005, the Company's working capital position was \$23.7 million versus \$21.5 million a year ago. Due to the rental nature of Pason's business, inventory is treated as a capital asset, and as a result, does not affect the Company's working capital.

Proceeds from the exercise of Company stock options totaled \$4.9 million compared to \$4.0 million in 2004, resulting in the issuance of 757,992 common shares versus 872,448 common shares the prior year. The average exercise price increased 40% to \$6.43 per share from \$4.58 per share in 2004.

During 2005, cash flow funded the Company's \$76.1 million capital expenditures program, representing an 83% increase over the prior year's total expenditures amount of \$41.5 million. Funds were used to acquire and build \$74.8 million of new capital assets and product enhancements with a further \$1.3 million spent on deferred development costs versus \$41.1 million and \$0.4 million, respectively, in 2004. Geographically, \$46.1 million of the new capital assets were in Canada, \$26.3 million in the U.S. and \$3.7 million internationally. This compares to \$25.0 million, \$14.8 million and \$1.7 million, respectively, a year ago.

At December 31, 2005, the Company had no capital lease obligations. All capital leases were fully discharged in 2004.

The Company's maximum operating line of credit is \$22.0 million in Canada, including US\$5.0 million for the United States. At December 31, 2005, \$8.4 million and CDN\$nil, respectively, were drawn on these facilities compared to \$nil and CDN\$0.3 million, respectively, in 2004.

In 2005, the Company put in place a \$10.0 million non-revolving term facility, which bears interest at the Canadian bank prime rate plus 0.50% per annum. Borrowings under this facility are repayable by consecutive monthly principal payments that commenced in January 2006 with the balance to be repaid in full by September 30, 2007.

During 2005, Pason continued to declare and pay semi-annual common share dividends. On June 30, 2005, the Company paid \$2.9 million or \$0.075 per share and on December 31, 2005 paid \$3.8 million or \$0.10 per share (a 33% increase) for total 2005 dividends of \$6.7 million or \$0.175 per share compared to \$4.7 million or \$0.125 per share paid out in 2004.

Disclosure of Outstanding Share Data

As at March 1, 2006, there were 38,656,683 common shares and 3,444,009 options issued and outstanding.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
		WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE (VESTED)	WEIGHTED AVERAGE EXERCISE PRICE
\$	#	YEARS	\$	#	\$
3.50 – 12.50	1,367,060	1.93	8.13	1,027,660	7.47
12.51 – 20.50	1,194,349	2.61	17.88	243,799	17.21
20.51 – 35.07	882,600	2.91	27.70	–	–
3.50 – 35.07	3,444,009	2.42	16.53	1,271,459	9.34

Contractual Obligations

	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
	\$	\$	\$	\$	\$
Non-revolving term facility	10,000,000	5,714,286	4,285,714	–	–
Operating leases	5,294,091	2,660,209	2,557,112	76,770	–
Office leases	8,592,759	960,485	1,781,264	1,828,089	4,022,921

New Products

Through its rental products, Pason continues to add value to the data acquired at the wellsite. Pason's Internet DataHub provides internally developed management tools with broad market appeal plus facilities to download data into more narrowly focused third party specialty applications. For competitive and disclosure accuracy reasons, it is the Company's policy not to divulge details of a new product until it is in an advanced prototype stage since its commercial viability is often not determined until that time.

ELECTRONIC SERVICE RECORDERS

After a year of field prototyping, in late 2005 Pason rolled out a commercial line of Electronic Service Recorders (ESR) for well service rigs. The ESR provides operational monitoring and administrative benefits similar to the EDR on drilling rigs, but is a substantially different product. The typical service rig operation presents new sensing challenges, more rig control points and an operating environment that is harsher than that of drilling rigs. Although there are more service rigs than drilling rigs in operation in both Canada and the United States, Pason expects revenue per service wellsite to be approximately 25% to that of the drilling wellsite.

OPTIMIZER

During 2005, Pason acquired a drilling optimization software program that will ultimately aid customers in extracting greater value from their drilling data. The software has proved its value with a major Canadian operator but still requires considerable training and consulting in its operation. Consequently, over the next 12 months the goal will be to streamline and simplify the use of this software so it can be widely deployed with minimal support.

**New Markets ** Pason has developed an international business model for renting its equipment in countries where drilling rig instrumentation has typically been purchased. The Company successfully implemented this model in May 2001 in Mexico. Pason rents its equipment package that primarily includes an EDR, PVT and TGAS for each rig, and then partners with a local service provider who has been trained in Pason's service culture to supply the necessary local service and support. As a result, Pason retains ownership of its equipment while protecting itself from overhead and unexpected costs associated with local service companies.

At year-end 2005, the Company provided instrumentation packages for 19 rigs in Mexico compared to 28 rigs in 2004. The year-over-year decrease was due to a number of rigs working under integrated services contracts that fell idle because of a lack of funding.

Through the success of this business model, Pason expanded its operations into the Argentine market during 2003, and subsequent thereto, to various other South American countries. The Company's EDR gained early acceptance due to the excellent work of Pason's local partner, however more recently the Company's Electronic Auto Driller has also been gaining attention. Pason still has work to do to further outfit each site with more products in order to generate more revenue per site and thereby record material results in this market going forward. At December 31, 2005, Pason EDRs were installed on 49 rigs versus 38 rigs in 2004, while Electronic Auto Drillers were installed on 24 rigs compared to 13 rigs a year ago.

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During 2005, operations from the international market (Mexico and South America) contributed \$4.2 million to the Company's total rentals revenue, an increase of 26% over the \$3.3 million contributed in 2004.

Pason has commenced start-up operations in Australia in 2006.

**Accounting **
Changes Effective January 1, 2005, the Company adopted the Canadian Accounting Standards Board amendments Handbook Section 3860 "Financial Instruments – Disclosure and Presentation" along with the Canadian Accounting Guideline 15 "Consolidation of Variable Interest Entities." There was no effect on the consolidated financial statements from the adoption of these guidelines.

**Critical **
Accounting
Estimates The preparation of the consolidated financial statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

DEPRECIATION AND AMORTIZATION

The accounting estimates that have the greatest impact on the Company's financial statements are depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives and salvage or residual value. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

CARRYING VALUE OF CAPITAL ASSETS

Long-lived assets are to be tested for impairment at least annually. An impairment loss is required to be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Management reviewed the current year and forecast 2006 earnings before interest, taxes, depreciation and amortization for the various assets and determined there were no indications, events or changes in circumstances that would indicate that the carrying amounts may not be recoverable.

**Risks and
Uncertainties**

The major area of uncertainty for Pason is that the demand for its services is directly related to the strength of its customers' capital expenditures programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of Pason and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices. The large capital-intensive oil sands projects and expanding international activities by many energy companies, which provide more limited utilization of Pason's equipment, will influence the level of capital expenditures in Canada, in particular.

Weakness in commodity prices can also impact the ability of the Company's customers to pay for the services provided. However, as Pason has a very broad customer base and its services are a minor component when looking at the overall cost of drilling a well, the risk is minimal.

Once the associated costs for the implementation of the Kyoto Protocol are determined, customers' cash flows and capital expenditures programs may be affected.

Merger and acquisition activity in the oil and gas exploration and production sector may impact demand for the Company's services, as customers tend to focus on reorganization activities prior to committing funds to major drilling programs.

In addition to the cyclical nature of its business, Pason is also subject to risks and uncertainties associated with weather and seasonality. Pason continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and internationally where these factors are less likely to influence activity.

Pason faces the challenge of attracting and retaining employees to meet its various specialized needs. The Company attempts to overcome this by offering an attractive compensation package and training as required to enhance skills.

The Company does not employ hazardous materials, so the possibility of environmental liabilities is limited.

Pason carries adequate levels of insurance to protect the Company. Due to the wide geographical distribution of equipment, the possibility of a loss to a significant portion of its asset base is extremely unlikely. As the Company's equipment is largely unmanned, the customer assumes responsibility for its operations.

The Company has defended its position in a United States patent infringement lawsuit and, following a hearing in July 2004, the court refused to grant the requested injunction to prevent Pason from renting its Electronic Auto Driller in the United States, stating that the other party was not likely to succeed in proving infringement at trial. Subsequent thereto, a similar lawsuit was launched in Canada. The other party appealed the ruling and in a decision released February 1, 2006, the Court of Appeals for the Federal Circuit vacated the decisions of the trial court and remanded the case to the trial court to hold a full trial on the merits of the claim of infringement and Pason's defences that the patent in question is invalid and that there is no infringement. At this time, management's assessment of the outcomes continue to be that the claims of infringement are not valid, and as a result, they are not expected to have a significant adverse impact on the Company's financial position or operations.

The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

**Outlook ** Pason continues to be well positioned to profit from the high levels of oilfield activity. Given the high commodity prices posted throughout 2005, Canadian drilling activity for the year reached over 24,700 wells with approximately 158,300 drilling days compared to over 22,700 wells and 132,400 drilling days in 2004. If current pricing levels are maintained, 2006 is forecast to be better than 2005 both in terms of wells drilled, at 26,000 wells, and the number of drilling days, at 166,000. The push to build more drilling rigs continues without any indication of slowdown. Each of these new rigs presents an opportunity for Pason products, and therefore, the Company expects to see rising revenues from its new products as well as its established mainline products. Pason anticipates spending \$80 million during 2006 to add new products, new units of existing products and enhancements in Canada, and to a greater extent in the United States and internationally where significant room for additional market share exists. The Company will continue to pursue international opportunities that fall within its service model parameters.

Pason's strengths in hardware design, software development, data communications, storage infrastructure and service support allow it to continue to outperform the general industry, and as a result, continue to offer superior shareholder value.

The Company's greatest challenge is to continuously retool processes so that the same strong margins can be realized through increased business. To that end, Pason continues to work on major system improvements in inventory and billings management.

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Operational \ Information

	INDUSTRY DRILLING DAYS	PASON RENTALS REVENUE	REVENUE PER INDUSTRY DRILLING DAY
(UNAUDITED)	#	CDN\$	CDN\$
Canada⁽¹⁾			
1996	97,400	4,497,000	46
1997	128,000	12,400,000	97
1998	89,400	14,800,000	166
1999	81,800	15,000,000	183
2000	117,400	29,000,000	247
2001	120,400	35,900,000	298
2002	92,000	32,088,000	349
2003	126,500	56,393,000	446
2004	132,400	73,149,000	552
2005	158,300	107,032,000	676
United States⁽²⁾			
1998	258,400	3,300,000	13
1999	191,600	4,200,000	22
2000	281,400	7,500,000	27
2001	354,400	17,300,000	49
2002	253,700	16,276,000	64
2003	329,500	26,962,000	82
2004	390,700	39,004,000	100
2005	458,500	56,419,000	123

(1) Source: Canadian Association of Oilwell Drilling Contractors.

(2) Baker Hughes weekly active rig count.

YEARS ENDED DECEMBER 31,	CANADA		UNITED STATES	
	2005	2004	2005	2004
(UNAUDITED)				
EDR rental days (#)	166,500	133,200	170,400	134,700
PVT rental days (#)	154,800	123,900	114,800	88,800
EDR revenue per rental day (\$)	285	266	174	152
PVT revenue per rental day (\$)	153	153	126	139

Numbers are impacted by the EDR configurations in each country and by the stronger Canadian dollar in 2005 versus 2004.

Summary of Quarterly Results

THREE MONTHS ENDED	MAR.31	JUN.30	SEP.30	DEC.31
(000S, EXCEPT PER SHARE DATA) (UNAUDITED)	\$	\$	\$	\$
2005				
Revenue	42,362	30,248	48,577	56,742
Earnings	13,664	4,994	14,307	17,314
Per share – basic	0.36	0.13	0.38	0.45
Per share – diluted	0.35	0.12	0.36	0.45
Cash flow from operations	20,036	10,620	21,955	26,758
Per share – basic	0.53	0.28	0.57	0.70
Per share – diluted	0.51	0.27	0.55	0.69
2004				
Revenue	34,645	21,232	29,724	36,611
Earnings	10,695	3,533	7,857	11,757
Per share – basic	0.29	0.09	0.21	0.31
Per share – diluted	0.28	0.09	0.20	0.30
Cash flow from operations	15,800	8,393	13,579	16,868
Per share – basic	0.43	0.23	0.36	0.45
Per share – diluted	0.41	0.22	0.35	0.43

For the purposes of cash flow per share calculations, cash flow is defined as earnings adjusted for depreciation and amortization, stock-based compensation and future income taxes. This definition is not a recognized measure under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.

- Q4 – 2005 ** Fourth quarter revenue improved 55% to \$56.7 million, while earnings rose 47% to \$17.3 million and earnings per diluted share increased 50% to \$0.45 versus the same period in 2004.
- Q3 – 2005 ** Third quarter revenue rose 63% to \$48.6 million, earnings were up 82% to \$14.3 million and earnings per diluted share improved 80% to \$0.36 compared to the 2004 three-month period.
- Q2 – 2005 ** Best ever second quarter revenue of \$30.2 million, a 42% increase, while earnings improved 41% to \$5.0 million and earnings per diluted share rose 33% to \$0.12 over the same period in 2004.
- Q1 – 2005 ** Revenue increased 22% to \$42.4 million, earnings grew 28% to \$13.7 million and earnings per diluted share rose 25% to \$0.35 versus the 2004 first quarter.
- Q4 – 2004 ** Fourth quarter revenue of \$36.6 million, a 32% increase, earnings improved 45% to \$11.8 million and earnings per diluted share rose 42% to \$0.30 over the same period in 2003.
- Q3 – 2004 ** Revenue grew 19% to \$29.7 million, while earnings remained flat at \$7.9 million and earnings per diluted share declined 5% to \$0.20 compared to the 2003 third quarter.
- Q2 – 2004 ** Revenue improved 37% to \$21.2 million, earnings rose 61% to \$3.5 million and earnings per diluted share increased 64% to \$0.09 over the same period in 2003.
- Q1 – 2004 ** Quarterly revenue of \$34.6 million, a 47% increase, earnings grew 68% to \$10.7 million and earnings per diluted share improved 30% to \$0.28 versus the first quarter of 2003.

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Variations in Pason's quarterly financial results are due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of United States and international operations. The first quarter is generally the strongest quarter for the Company due to strong activity in northern areas when location access is best during the winter. The second quarter is generally the slowest due to spring breakup in Canada when many areas are not accessible due to ground conditions, and therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas becomes available with ground freezing. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

**Statement Regarding Disclosure Controls ** As of December 31, 2005, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on the evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

**SEDAR ** Additional information relating to the Company can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Pason's TGAS is installed on 40% of Canadian and 15% of U.S. land rigs operating with a Pason EDR system.



Extensive system engineering revisions completed in 2005 should result in increased installations in all operating markets going forward.

Management's Report \

To the Shareholders of Pason Systems Inc.

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and has made significant accounting judgements and estimates as required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis ("MD&A"). The MD&A is based on the Company's financial results prepared in accordance with Canadian GAAP. The MD&A compares the audited financial results for the years ended December 31, 2005 and 2004.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, have discussed the consolidated financial statement, including the notes thereto, with the management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

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James D. Hill
PRESIDENT &
CHIEF EXECUTIVE OFFICER

CALGARY, ALBERTA
MARCH 1, 2006



Joanne Dickie
CHIEF FINANCIAL
OFFICER

Auditors' Report \

To the Shareholders of Pason Systems Inc.

We have audited the consolidated balance sheets of Pason Systems Inc. as at December 31, 2005 and 2004 and the consolidated statements of earnings and retained earnings and of cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

CALGARY, ALBERTA
FEBRUARY 17, 2006

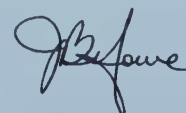
Consolidated Balance Sheets \

DECEMBER 31,	2005	2004
	\$	\$
Assets		
Current		
Cash	1,890,813	1,949,960
Accounts receivable	64,942,503	36,562,572
Prepaid expenses	1,584,750	511,427
	68,418,066	39,023,959
Investment (NOTE 5)	3,000,000	—
Capital assets (NOTE 6)	144,398,684	97,691,491
Deferred development costs (NOTE 7)	2,379,980	2,297,018
	218,196,730	139,012,468
Liabilities		
Current		
Bank indebtedness (NOTE 8)	8,350,000	313,836
Accounts payable and accrued liabilities	21,743,862	13,378,125
Income taxes payable	8,925,907	3,209,027
Current portion of non-revolving term credit facility (NOTE 8)	5,714,286	583,333
	44,734,055	17,484,321
Long-term portion of non-revolving term credit facility (NOTE 8)	4,285,714	—
Future income taxes (NOTE 10)	6,018,231	6,781,471
	55,038,000	24,265,792
Shareholders' Equity		
Share capital (NOTE 9)	29,496,102	24,225,666
Contributed surplus (NOTE 9)	3,579,714	1,381,913
Foreign currency translation adjustment	(11,525,757)	(8,892,276)
Retained earnings	141,608,671	98,031,373
	163,158,730	114,746,676
	218,196,730	139,012,468

Approved by the Board of Directors



Harold R. Allsopp
DIRECTOR



James B. Howe
DIRECTOR

Consolidated Statements of Earnings and Retained Earnings \

YEARS ENDED DECEMBER 31,	2005	2004
	\$	\$
Revenue	177,928,773	122,212,350
Expenses		
Rental services	47,842,801	33,468,053
Geological services	6,531,547	4,954,244
Manufacturing and distribution	6,422,006	3,579,153
Research and development	6,379,377	4,994,962
Administration	4,076,192	3,061,376
Stock-based compensation (NOTE 9)	2,595,546	1,290,273
Interest on long-term lease obligations	—	71,531
Interest – other	547,366	311,492
Depreciation and amortization (NOTES 6 AND 7)	27,197,493	18,992,107
	101,592,328	70,723,191
Earnings before income taxes	76,336,445	51,489,159
Income taxes (NOTE 10)		
Current	26,760,708	17,131,159
Future	(704,374)	516,088
	26,056,334	17,647,247
Earnings	50,280,111	33,841,912
Retained earnings, beginning of year	98,031,373	68,881,275
Dividends	(6,702,813)	(4,691,814)
Retained earnings, end of year	141,608,671	98,031,373
Earnings per share (NOTE 12)		
Basic	1.32	0.91
Diluted	1.28	0.87

Consolidated Statements of Cash Flows \

YEARS ENDED DECEMBER 31,	2005	2004
	\$	\$
Cash flows related to the following activities:		
Operating		
Earnings	50,280,111	33,841,912
Adjustments for:		
Depreciation and amortization	27,197,493	18,992,107
Stock-based compensation	2,595,546	1,290,273
Future income taxes	(704,374)	516,088
	79,368,776	54,640,380
Changes in non-cash working capital	(22,968,143)	(11,289,424)
	56,400,633	43,350,956
Financing		
Issue of common shares under the stock option plan	4,872,691	3,991,888
Proceeds from non-revolving term facility	10,000,000	3,500,000
Repayment of non-revolving term facility	(583,333)	(2,916,667)
Repayment of capital leases	–	(2,490,797)
Payment of dividends	(6,702,813)	(4,691,814)
	7,586,545	(2,607,390)
Investing		
Purchase of capital assets	(74,741,320)	(41,141,706)
Long-term investment	(3,000,000)	–
Deferred development costs	(1,322,480)	(376,092)
Proceeds on disposal of capital assets	345,894	665,645
Changes in non-cash working capital	6,635,417	4,256,806
	(72,082,489)	(36,595,347)
Net increase (decrease) in cash and cash equivalents	(8,095,311)	4,148,219
Cash and cash equivalents, beginning of year	1,636,124	(2,512,095)
Cash and cash equivalents, end of year	(6,459,187)	1,636,124
Represented by:		
Cash	1,890,813	1,949,960
Bank indebtedness	(8,350,000)	(313,836)
Cash and cash equivalents	(6,459,187)	1,636,124
Supplemental cash flow information		
Interest paid	545,207	383,023
Income tax paid	18,874,000	20,120,370

Notes to Consolidated Financial Statements \

YEARS ENDED DECEMBER 31, 2005 AND 2004

1 \ Description of Business

Pason Systems Inc. (the "Company") designs and manufactures for rent, specialized proprietary instrumentation for use on land-based drilling and service rigs.

2 \ Basis of Presentation

The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries, Pason Systems Corp., Pason US Holdings Corp., Pason de Mexico S.A. de C.V. and Pason Systems USA Corp., a wholly-owned subsidiary of Pason US Holdings Corp.

Certain comparative figures have been reclassified to conform to the current year's presentation.

3 \ Changes in Accounting Estimates

In 2005, management made a decision, based on operating experience, to change the salvage value for the unit-of-use depreciation based assets from 10% to 5%, which includes the electronic drilling recorders, pit volume totalizers, electronic choke controls, total gas systems and electronic auto drillers. This change in accounting estimates was applied prospectively from January 1, 2005.

The impact of these changes for the year ended December 31, 2005 was to increase depreciation expense by \$1,106,500, from what would have been otherwise recorded.

4 \ Significant Accounting Policies

CASH AND CASH EQUIVALENTS

Cash reflects cash on deposit and bank indebtedness.

INVESTMENTS

Investments are recorded at cost. If there are other than temporary declines in value, investments are recorded at realizable value.

CAPITAL ASSETS

Capital assets include parts and raw materials, which are recorded at cost, awaiting assembly into capital assets. No depreciation is recorded for parts and raw materials awaiting assembly.

The electronic drilling recorders and electronic auto drillers are recorded at cost and are depreciated using a unit-of-use method based on 1,350 rental days with a 5% salvage or residual value. Pit volume totalizers and electronic choke controls are recorded at cost and are depreciated using a unit-of-use method based on 1,800 rental days with a 5% salvage or residual value. Total gas systems are recorded at cost and are depreciated using a unit-of-use method based on 1,125 rental days with a 5% salvage or residual value.

Geological services equipment is recorded at cost and is depreciated on a straight-line basis over 60 months. Satellite systems (high bandwidth) are recorded at cost and depreciated on a straight-line basis over 36 months. Electronic cables are recorded at cost and are depreciated on a straight-line basis over 36 months. Satellite (low bandwidth) telephones are recorded at cost and are depreciated on a straight-line basis over 30 months.

Leasehold improvements are amortized on a straight-line basis over the terms of the leases, which range from two to ten years.

4 \ Significant Accounting Policies (CONTINUED)

All remaining capital assets are recorded at cost and are depreciated using the declining-balance method at the following annual rates:

Trucks and truck boxes	30%
Other	20%

GOODWILL

Goodwill, included in capital assets, is recorded at cost. Effective January 1, 2002, goodwill is not being amortized, rather the recorded amount of goodwill is subject to periodic impairment review. This review takes place on at least an annual basis to ensure that the fair value remains greater than, or equal to, book value, or at earlier periods if circumstances indicate a possible impairment. Any excess of book value over fair value is charged to income in the period in which the impairment is determined to have occurred.

RESEARCH AND DEVELOPMENT

The Company expenses all research expenditures as incurred, net of related investment tax credits received. Development costs, net of related investment tax credits, are expensed as incurred unless they meet the criteria for deferral and amortization under Canadian generally accepted accounting principles.

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Development costs incurred on new product development projects, which in management's view have clearly defined market prospects, are technologically feasible and for which the Company intends to commit resources, are deferred and amortized over three years commencing in the year in which the new products begin generating rental revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed.

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end exchange rate and revenues and expenses are translated at average semi-monthly exchange rates. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a foreign currency translation adjustment account in shareholders' equity.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in earnings for the period.

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and income tax basis of an asset or liability. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in the period that the change is substantively enacted, based on the rates in effect when the temporary differences are expected to reverse. Investment tax credits are recorded when received.

4 \ Significant Accounting Policies (CONTINUED)

REVENUE RECOGNITION

Revenue is recognized during the reporting period based on completion of each rental day for rental products and geological services, provided collectibility is reasonably assured.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company determines whether the net carrying amount of capital assets is recoverable from future undiscounted cash flows when indicators of impairment exist. The Company's business along with the market and business environment are continually monitored, and judgements and assessments are made to determine whether an event has occurred that indicates a possible impairment. If such an event has occurred, an estimate is made of future undiscounted cash flows from the capital asset. If the total of the undiscounted future cash flows, excluding finance charges, is less than the carrying amount of the capital assets, asset impairment must be recognized in the financial statements. The amount of the impairment to be recognized is calculated by subtracting the fair value of the asset from the carrying value of the asset. Fair value is the amount at which an item could be brought or sold in a current environment between willing parties, and is estimated by calculating the present value of expected future cash flows related to the asset.

STOCK-BASED COMPENSATION PLANS

The Company has a stock option plan under which the stock options are being accounted for using the fair value method estimated on the date of grant using the Black-Scholes option-pricing model and results in recording stock-based compensation costs. Consideration received on the exercise of stock options together with the amount of non-cash compensation expense recognized in contributed surplus, for these same options, is recorded as an increase in share capital.

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the amortization period for capital assets, the valuation of capital assets, the assessment of the viability of new product development projects and the provision for doubtful accounts receivable. Actual results could differ from these estimates.

5 \ Investment

The Company has a portfolio investment in shares of a private company that is recorded at cost of \$3,000,000, which approximates the fair market value at December 31, 2005.

6 \ Capital Assets

	COST	ACCUMULATED DEPRECIATION AND AMORTIZATION	NET BOOK VALUE
	\$	\$	\$
2005			
Parts and raw materials	25,112,945	—	25,112,945
Electronic drilling recorders	74,140,741	29,822,549	44,318,192
Satellite systems (high bandwidth)	22,877,682	4,811,416	18,066,266
Pit volume totalizers	19,624,425	5,412,688	14,211,737
Electronic cables	14,987,117	5,284,695	9,702,422
Total gas systems	13,198,473	1,050,649	12,147,824
Electronic auto drillers	8,453,327	495,539	7,957,788
Satellite (low bandwidth) telephones	4,712,934	4,623,375	89,559
Computer equipment	4,493,329	3,711,518	781,811
Leasehold improvements	4,307,252	2,019,419	2,287,833
Truck and truck boxes	4,015,444	1,728,597	2,286,847
Geological services equipment	3,518,997	3,414,550	104,447
Electronic choke control systems	2,815,381	855,272	1,960,109
Electronic service recorders	2,140,762	3,830	2,136,932
Workstations	2,020,185	171,881	1,848,304
Other	3,832,968	2,447,300	1,385,668
	210,251,962	65,853,278	144,398,684
2004			
Parts and raw materials	10,670,357	—	10,670,357
Electronic drilling recorders	65,159,348	18,494,971	46,664,377
Satellite systems (high bandwidth)	7,859,634	1,606,000	6,253,634
Pit volume totalizers	15,985,565	4,328,701	11,656,864
Electronic cables	7,616,470	2,239,876	5,376,594
Total gas systems	5,106,313	537,717	4,568,596
Electronic auto drillers	4,055,493	79,034	3,976,459
Satellite (low bandwidth) telephones	4,994,945	4,303,799	691,146
Computer equipment	3,763,255	3,292,655	470,600
Leasehold improvements	4,120,254	1,725,655	2,394,599
Trucks and truck boxes	2,814,757	1,117,211	1,697,546
Geological services equipment	3,559,219	3,310,994	248,225
Electronic choke control systems	2,290,642	635,214	1,655,428
Other	3,521,602	2,154,536	1,367,066
	141,517,854	43,826,363	97,691,491

Depreciation and amortization expense recorded with respect to capital assets in 2005 was \$25,957,975 (2004 – \$17,630,215). Included in depreciation and amortization expense are losses on the disposal of assets in the amount of \$1,024,448 (2004 – \$270,304). Included in other capital assets is the amortized book value as at December 31, 2001 of goodwill recorded by Pason Systems USA Corp. in the amount of \$368,530 (2004 – \$380,446). No impairment of capital assets or goodwill has been recorded for 2005 or 2004.

7 \ Deferred Development Costs

	2005	2004
	\$	\$
Accumulated costs, beginning of year	6,515,576	6,139,484
Additional costs deferred during the year	1,796,247	969,916
Investment tax credits received	(286,406)	(456,342)
Non commercial project costs expensed during the year	(187,361)	(137,482)
	7,838,056	6,515,576
Accumulated amortization	(5,458,076)	(4,218,558)
Net deferred development costs, end of year	2,379,980	2,297,018

The amortization recorded in 2005 was \$1,239,518 (2004 – \$1,361,892).

8 \ Credit Facilities

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The Company's subsidiary, Pason Systems Corp., has a \$22,000,000 demand credit facility, which bears interest at the Canadian bank prime rate plus 0.5%. At December 31, 2005, an amount of \$8,350,000 had been drawn on this credit facility (2004 – \$313,836). The credit facility is used by the Company for temporary cash shortfalls, and accordingly, amounts drawn down are recorded as bank indebtedness and included with cash and cash equivalents in the consolidated statements of cash flows.

In 2005, the Company put in place a \$10,000,000 non-revolving term facility, which bears interest at the Canadian bank prime rate plus 0.50% per annum. Borrowings under this facility are repayable by consecutive monthly principal payments that commenced in January 2006 with the balance to be repaid in full by September 30, 2007. At December 31, 2005, an amount of \$10,000,000 was outstanding on this facility (2004 – \$583,333 on a similar facility). This facility, together with the demand credit facility, are secured by a general security agreement from Pason Systems Corp. and Pason Systems USA Corp.

9 \ Share Capital

Authorized

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

Issued

Common shares

	SHARES	AMOUNT
	#	\$
Balance, December 31, 2003	36,892,192	20,155,478
Exercise of stock options	872,448	3,991,888
Contributed surplus adjustment on exercise of stock options	–	78,300
Balance, December 31, 2004	37,764,640	24,225,666
Exercise of stock options	757,992	4,872,691
Contributed surplus adjustment on exercise of stock options	–	397,745
Balance, December 31, 2005	38,522,632	29,496,102

9 \ Share Capital (CONTINUED)

On May 16, 2005, the shareholders of the Company voted in favour of a two-for-one subdivision of the Company's common shares. Upon completion of the share split on May 31, 2005, the Company had 38,022,146 common shares outstanding. Comparative per share information has been restated to reflect the two-for-one split.

At December 31, 2005, 3,555,210 stock options, which vest over the following three years from the date of issue, were outstanding for common shares at exercise prices ranging from \$3.50 to \$28.90 per share, expiring between January 30, 2006 and October 28, 2009 as follows:

	2005		2004	
	SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	SHARE OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
	#	\$	#	\$
Outstanding, beginning of year	2,955,302	9.44	3,309,550	6.63
Granted	1,621,000	23.21	822,000	16.08
Exercised	(757,992)	6.43	(872,448)	4.58
Forfeited	(256,100)	16.97	(303,800)	10.72
Expired	(7,000)	3.12	—	—
Outstanding, end of year	3,555,210	15.83	2,955,302	9.44
Exercisable, end of year	1,281,110		1,286,336	
Available for grant, end of year	297,053		821,162	

2005		OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	WEIGHTED AVERAGE REMAINING OPTIONS OUTSTANDING	WEIGHTED AVERAGE CONTRACTUAL LIFE	EXERCISE PRICE	WEIGHTED AVERAGE EXERCISABLE (VESTED)	EXERCISE PRICE
\$	#	YEARS	\$	#	\$
3.50 – 12.50	1,492,810	2.09	8.07	1,120,010	7.42
12.51 – 20.50	1,251,050	2.77	17.85	161,100	15.95
20.51 – 28.90	811,350	3.04	27.01	—	—
	3,555,210	2.55	15.83	1,281,110	8.50

The Company is authorized to issue a maximum of 15,000,000 shares under its stock option plan of which 12,148,300 options have been granted; 3,555,210 options are outstanding; 1,941,300 options have been cancelled; and 4,793,000 options are available for issue at December 31, 2005. The total number of options outstanding must not exceed 10% of the total common shares outstanding.

Prior to 2003, the Company accounted for its stock option plan using the intrinsic value of options issued, whereby no compensation costs were recognized in the consolidated financial statements for stock options granted to employees and directors. If the fair value method had been used, the Company's earnings and earnings per share for 2005 and 2004 would have approximated the following pro-forma amounts:

9 \ Share Capital (CONTINUED)

YEARS ENDED DECEMBER 31,	2005	2004
	\$	\$
Additional compensation costs	186,289	342,610
Earnings		
As reported	50,280,111	33,841,912
Pro-forma	50,093,822	33,499,302
Earnings per common share		
Basic		
As reported	1.32	0.91
Pro-forma	1.31	0.90
Diluted		
As reported	1.28	0.87
Pro-forma	1.28	0.87

The fair value of each option granted at \$2.00 during the year ended December 31, 2002 was estimated on the date of grant using the Black-Scholes option-pricing model assuming a forfeiture rate of 13% with weighted average assumptions as follows:

YEAR ENDED DECEMBER 31,	2002
Risk free interest rate (%)	4.29
Expected option life (YEARS)	3.16
Expected volatility (%)	40.00
Annual dividends per share (%)	0.00

Stock options issued to employees and directors subsequent to December 31, 2002 have been accounted for using the fair value method and recorded as stock-based compensation expense of \$2,595,546 in the consolidated statement of earnings, using the following weighted average assumptions and the fair value of stock options granted at \$5.35 per share (2004 – \$3.94), using a forfeiture rate of 16% (2004 – 16%):

YEARS ENDED DECEMBER 31,	2005	2004
Risk free interest rate (%)	3.39	3.70
Expected option life (YEARS)	3.13	3.12
Expected volatility (%)	29.53	31.70
Annual dividends per share (%)	1.0	1.0

Amounts recorded to contributed surplus of \$2,595,546 (2004 – \$1,290,273) relating to the fair value of stock options expensed and subsequent reduction for options exercised are as follows:

	AMOUNT
	\$
Contributed Surplus	
Balance, December 31, 2004	1,381,913
Stock-based compensation expense for the year	2,595,546
Stock options exercised	(397,745)
Balance, December 31, 2005	3,579,714

10 \ Provision for Income Taxes

The provision for income taxes reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 33.62% for 2005 and 34.12% for 2004. In addition, Pason Systems USA Corp. is subject to federal and state statutory tax rates of 40% for 2005 and 2004. The main differences are as follows:

	2005	2004
	\$	\$
Earnings before income taxes	76,336,445	51,489,159
Expected income taxes	25,664,313	17,739,229
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	316,424	281,356
Non-taxable dividends	(422,989)	(185,563)
Permanent differences and other	498,586	(187,775)
Provision for income tax expense	26,056,334	17,647,247

The Company has future income tax liabilities related to temporary differences between the actual book value and the tax value of capital assets in the amount of \$8,752,200 (2004 – \$11,244,100). The Company also has available U.S. net operating losses of \$7,651,355 (2004 – \$11,156,500), of which a benefit of \$2,734,000 (2004 – \$4,462,600) has been recognized in the consolidated financial statements. These losses expire at various times up to 2022.

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11 \ Financial Instruments and Credit, Currency and Interest Risks

The carrying values of financial instruments, which include cash, accounts receivable, investments, bank indebtedness, accounts payable and accrued liabilities, income tax receivable and payable and the non-revolving term credit facility, approximate amounts at which these instruments could be exchanged in a transaction between knowledgeable and willing parties.

The Company is exposed to credit risk to the extent that its customers may experience financial difficulty and would be unable to meet their obligations. However, the Company has a large number of customers, which minimizes concentration of credit risk.

A significant portion of the Company's operations relates to subsidiaries located in the United States and Mexico that are considered self-sustaining. As a result of fluctuations in foreign exchange rates, the Company may be exposed to varying foreign exchange risks.

The Company is exposed to interest rate risk on its floating rate credit facilities.

12 \ Per Share Amounts

Basic earnings per share figures have been calculated using 38,119,595 (2004 – 37,328,814) weighted average number of common shares outstanding during the year. Diluted amounts per share have been calculated based on the treasury method using the weighted average number of common shares and dilutive equity instruments representing an additional 1,152,508 shares (2004 – 1,383,806) for a total of 39,272,103 shares (2004 – 38,712,620) used to calculate diluted earnings per share figures.

Excluded from the calculation of diluted earnings per share were weighted average options outstanding of 770,400 shares (2004 – 71,000) as the options' exercise price was greater than the average market price of the common shares for the year.

13 \ Segmented Information

The Company operates in three geographic segments within one industry segment. Rental services are provided in Canada, the United States and internationally (Mexico and South America). The amounts related to each segment are as follows:

	CANADA	UNITED STATES	INTERNATIONAL	TOTAL
	\$	\$	\$	\$
2005				
Revenue from external customers	107,032,092	66,721,623	4,175,058	177,928,773
Depreciation and amortization	17,617,569	9,077,555	502,369	27,197,493
Operating costs	37,146,732	32,586,741	1,101,561	70,835,034
Segment operating profit	52,267,791	25,057,327	2,571,128	79,896,246
Interest on long-term lease obligations				–
Interest – other				547,366
Corporate expenses				416,889
Stock-based compensation				2,595,546
Income tax expense				26,056,334
Earnings				50,280,111
Identifiable assets	142,123,393	70,167,500	5,905,837	218,196,730
Capital expenditures	46,030,567	26,316,016	3,717,217	76,063,800
2004				
Revenue from external customers	72,495,088	46,410,842	3,306,420	122,212,350
Depreciation and amortization	12,661,876	6,002,822	327,409	18,992,107
Operating costs	25,993,242	23,304,513	398,502	49,696,257
Segment operating profit	33,839,970	17,103,507	2,580,509	53,523,986
Interest on long-term lease obligations				71,531
Interest – other				311,492
Corporate expenses				361,531
Stock-based compensation				1,290,273
Income tax expense				17,647,247
Earnings				33,841,912
Identifiable assets	92,548,240	42,248,380	4,215,848	139,012,468
Capital expenditures	24,989,072	14,812,533	1,716,193	41,517,798

14 \ Guarantees

It is management's assessment that there are no material guarantees in place at December 31, 2005 to indemnify certain parties for actions incurred by the Company.

15 \ Commitments

The Company has a lease for Calgary office premises expiring March 31, 2015. The minimum annual rental payments are \$659,810 in each of 2006 through 2010 and \$775,277 from 2011 through 2015. Under the Company's Denver lease, minimum annual lease payments are \$226,675 in 2006 increasing by \$0.30 per square foot per year to \$259,300 to July 31, 2011. Minimum average annual lease payments of \$74,000 to December 31, 2006 are required under the Company's Houston lease.

The Company entered into operating leases for its new vehicles with minimum annual rental payments in 2006 of \$2,660,209; 2007 of \$1,909,583; 2008 of \$647,529; and 2009 of \$76,770.

16 \ Contingencies

The Company has defended its position in a United States patent infringement lawsuit, and following a hearing in July 2004, the court refused to grant the requested injunction to prevent Pason from renting its electronic auto driller in the United States, stating that the other party was not likely to succeed in proving infringement at trial. The other party appealed the ruling, and in a decision released February 1, 2006, the Court of Appeals for the Federal Circuit vacated the decision of the trial court and remanded the case to the trial court to hold a full trial on the merits of the claim of infringement and Pason's defenses that the patent in question is invalid and that there is no infringement. During 2005, the same party launched a similar lawsuit in Canada. At this time, management's assessment of the outcome continues to be that the claim of infringement is not valid, and as a result, it is not expected to have a significant adverse impact on the Company's financial position or operations. Accordingly, no amount has been accrued for any potential loss under the claim in the consolidated financial statements at December 31, 2005. The defense of the patent claims in the United States and Canada could take two years or more to resolve.

The Company is involved in other legal actions and potential claims in the normal course of business. In the opinion of management, the aggregate amount of any potential liability is not expected to have a material adverse impact on the Company's financial position or results.

Historical Review \

SELECTED FINANCIAL DATA

YEARS ENDED DECEMBER 31,	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
(000S, EXCEPT PER SHARE DATA)	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Operating Results										
Revenue	177,929	122,212	91,801	55,311	63,016	42,144	24,668	23,768	14,496	4,497
Expenses										
Rental services	47,843	33,468	23,367	17,159	13,641	9,290	5,649	4,830	2,348	1,029
Geological services	6,532	4,954	4,283	4,608	6,262	5,326	3,852	3,568	911	—
Manufacturing & distribution	6,422	3,579	2,835	2,359	2,551	1,900	1,426	1,125	740	298
Administration	4,076	3,062	2,647	2,427	2,415	2,826	1,867	1,631	702	441
Research & development	6,379	4,995	3,663	3,009	2,750	2,006	1,403	967	508	222
Stock-based compensation	2,595	1,290	170	—	—	—	—	—	—	—
Depreciation & amortization	27,198	18,992	15,017	8,913	7,341	5,340	2,898	2,584	1,689	580
Earnings	50,280	33,842	24,596	9,606	15,437	8,117	4,084	4,900	4,102	909
Per share – basic	1.32	0.91	0.68	0.27	0.45	0.24	0.12	0.15	0.14	0.03
Cash flow from operations	79,369	54,640	40,463	18,534	24,941	14,797	7,966	7,417	6,014	1,537
Per share – basic	2.08	1.46	1.11	0.52	0.72	0.44	0.24	0.23	0.21	0.05
Capital expenditures	76,064	41,518	34,041	14,069	22,921	23,419	10,851	8,294	7,957	2,438
Financial Position										
Current assets	68,418	39,024	31,064	22,728	20,276	18,150	11,461	10,470	10,529	3,028
Total assets	218,197	139,012	112,289	90,191	82,252	64,451	40,193	30,736	25,179	7,346
Working capital	23,684	21,540	9,235	4,295	5,135	1,416	3,283	5,769	3,824	600
Long-term facility	4,286	—	—	115	395	635	—	—	233	364
Future income tax	6,018	6,781	6,558	6,268	6,284	3,800	2,159	1,030	860	81
Shareholders' equity	163,159	114,747	83,902	65,878	53,941	35,448	26,261	22,639	16,878	3,979
Return on shareholders' equity	36%	34%	33%	16%	35%	26%	17%	24%	41%	43%
Common Share Data										
Common shares outstanding (#)										
At December 31	38,523	37,765	36,892	35,806	34,872	33,578	32,592	32,338	31,800	27,442
Weighted average	38,120	37,329	36,350	35,496	34,294	33,208	32,514	32,206	28,116	24,824
Share trading ⁽¹⁾										
High (\$)	30.25	19.80	12.75	6.67	5.17	4.87	3.45	4.25	3.25	1.20
Low (\$)	17.72	11.50	5.82	4.32	3.00	2.75	1.12	1.25	3.15	0.35
Close (\$)	28.90	18.50	12.60	5.97	4.55	3.47	3.12	1.45	3.25	1.07
Volume (#)	11,442	18,450	9,270	10,958	8,846	6,466	6,532	9,974	8,844	n/a

(1) Share trading statistics have been adjusted historically to reflect a two-for-one stock split in 2005 by doubling volumes and reducing prices in half.



DIRECTORS

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Habede Holdings Ltd.
Calgary, Alberta

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CHIEF EXECUTIVE OFFICER
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Calgary, Alberta

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CHIEF EXECUTIVE OFFICER
Pason Systems Inc.
Calgary, Alberta

James B. Howe, CA (1)(2)
PRESIDENT
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

Catherine Hughes, BSc (2)(3)
VICE PRESIDENT EXPLORATION
& PRODUCTION SERVICES
Husky Oil Operations Limited
Calgary, Alberta

Peter S. Mackechnie, CA (3)
PRIVATE INVESTOR
Vail, Colorado

- (1) Audit Committee Member
(2) Compensation Committee Member
(3) Corporate Governance Committee Member

OFFICERS AND
KEY PERSONNEL

**Pason Systems Inc. /
Pason Systems Corp.**

Jim Hill
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CHIEF EXECUTIVE OFFICER

Joanne Dickie
CHIEF FINANCIAL OFFICER

Bob Rodda
CANADIAN BUSINESS
UNIT MANAGER

Lucy Tomie
FINANCIAL CONTROLLER

Jim Glasspoole
OPERATIONS CONTROLLER

David White
R&D MANAGER

Sunil Patel
MANUFACTURING MANAGER

James Parks
QUALITY ASSURANCE MANAGER

Ken Ledger
RISK MANAGER

Pason Systems USA Corp.

Jim Hill
PRESIDENT

Greg Lindsay
U.S. BUSINESS UNIT MANAGER

Ben Thomas
SALES MANAGER

Jerry Aberle
CHIEF FINANCIAL OFFICER

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GEOLOGICAL SERVICES MANAGER

Lee Maassen
CONTROLLER

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REGISTRAR AND
TRANSFER AGENT
Valiant Trust Company
Calgary, Alberta

STOCK TRADING
Toronto Stock Exchange
Trading Symbol: PSI

ANNUAL MEETING

The Annual and Special General Meeting of Shareholders of Pason Systems Inc. will be held on Monday, May 15, 2006 at 3:30 p.m. (Calgary time) in the offices of Pason Systems Inc., 6130 Third Street S.E., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Valiant Trust Company at their earliest convenience.